

**CALIFORNIA HEALTH FACILITIES FINANCING AUTHORITY
THE HELP II PROGRAM
EXECUTIVE SUMMARY**

<p>Applicant: Chapa-De Indian Health Program, Inc. ("Chapa-De") 11670 Atwood Road Auburn, CA 95603</p> <p>Project Site: 1350 East Main Street, Grass Valley, CA 95945, Nevada County</p> <p>Facilities Type: Community Medical/Dental Clinic, Federally Qualified Health Center (FQHC), and certified as Tribal Health Program (THP) with Medicaid.</p> <p>Prior HELP II Borrower: No</p>	<p>Amount Requested: \$750,000</p> <p>Requested Loan Term: 5 years</p> <p>Date Requested: January 31, 2008</p> <p>Resolution Number: HII-212</p>
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Background: Established in 1975, Chapa-De is a non-profit organization primarily providing medical, dental, and behavioral services to Native Americans, and all other low-income groups who reside in the counties of Placer, Nevada, Sierra and Yolo. Chapa-De is the only provider currently accepting Medi-Cal and Medicare patients in Nevada County geographical area.

Uses of Loan Proceeds: Chapa-De is constructing a one-story 28,000-square-foot building in Grass Valley to support higher demand for its existing facilities. HELP II loan proceeds will be used to support the purchase of medical and dental equipment for the new facility.

- Financing Structure**
- 5-year loan.
 - 60 equal monthly payments of approximately \$13,477 (annual payments of approximately \$161,724).
 - First Lien on gross revenues.
 - A UCC-1 lien on equipment.
 - Loan to value ratio not to exceed 95%.

Financial Overview: Chapa-De appears to continue showing a solid growth in revenues and increases in unrestricted net assets. Chapa-De appears to be exceptionally liquid (with approximately \$13 million in cash) and financially strong (with \$20.4 million in net assets.)

<u>Sources of Funds</u>		<u>Uses of Funds</u>	
Umpqua Bank Loan	\$7,157,000	Construction	\$16,646,625
USDA Loan	5,464,000	Purchase Equipment	1,863,000
Borrower Funds	5,148,000	Financing Cost	<u>9,375</u>
HELP II Loan	<u>750,000</u>	Total Uses	<u>\$18,519,000</u>
Total Sources	<u>\$18,519,000</u>		

Legal Review: No information was disclosed to question the financial viability or legal integrity of the Applicant.

Staff Recommendation: Staff recommends approval of a HELP II loan in an amount not to exceed \$750,000, for a term not to exceed 5 years, and contingent upon financing terms acceptable to the Authority.

**STAFF SUMMARY AND RECOMMENDATION
THE HELP II PROGRAM**

I. PURPOSE OF FINANCING

<i>Acquire approximately 13 acres of land</i>	\$2,574,000
Chapa-De completed the acquisition of four contiguous parcels in Grass Valley in 1999, paying for these parcels fully in cash.	
<i>Construct a 28,000 square foot facility</i>	10,874,000
Chapa-De has been operating from two locations in Grass Valley; a leased 4,391 square-foot facility which currently houses all of its medical, chiropractic and acupuncture services which will be vacated upon the completion of this project (yielding a saving in excess of \$93,000 annually in lease expense) and an owned 4,129 square-foot facility which houses its dental and behavioral health services. Chapa-De has found that the demand for services exceeds the capacity of these facilities. Recognizing a need for consolidation of operations and expansion, Chapa-De acquired 13 acres of property in 1999 and initiated a planning process with a local architect, resulting in the current project for a 28,000-square-foot facility. Chapa-De reports that construction began in June of 2007 and that the new clinic should be open for operation by September 2008.	
<i>Acquire equipment for the new clinic</i>	1,863,000
Chapa-De will be furnishing the new facility with medical, dental, optometry, pharmaceutical, information technology, security and records equipment. <i>CHFFA's HELP II loan funds will be utilized to support the acquisition of this equipment.</i> CHHFA will secure the HELP II loan with a UCC-1 lien on equipment be purchased in the amount of \$790,000, resulting in a loan to value ratio of 95%.	
<i>Architectural Fees</i>	1,024,000
Included in architectural fees, planning, consulting fees, engineering and other fees.	
<i>Inspection Fees</i>	472,000
<i>Administrative and legal fees</i>	114,000
<i>Contingency and other fees</i>	1,588,625
<i>Financing Costs – Authority Closing Fee</i>	<u>9,375</u>
<i>Total Uses of Funds</i>	<u>\$18,519,000</u>

II. FINANCIAL STATEMENTS AND ANALYSIS

Chapa-De Indian Health Program, Inc.
Statement of Activities
(Unrestricted)

	For the Year Ended June 30,		
	2007	2006	2005
Revenue, gains and other support:			
IHS Tribal Health Program	\$ 5,116,552	\$ 4,753,501	\$ 4,666,511
Medical services	1,923,389	1,667,640	1,831,923
Dental services	1,196,209	1,455,802	1,297,266
EAPC revenue	404,761	297,511	362,369
Pharmacy revenue	393,426	344,639	308,229
IHS Tribal Shares Program	289,367	299,350	284,578
CA DHS SB-1117 Program	262,742	261,025	250,011
IHS Diabetes Program	254,503	254,519	307,847
Interest income	227,854	171,247	111,299
MOA/FQHC settlements	178,460	101,299	88,792
Cortina services	89,140	80,052	46,197
CA CALWORKS Program	36,314	53,950	53,950
Realized gain/(loss) on investments	21,573	42,792	23,465
Unrealized gain/(loss) on investments	1,629	127,533	78,089
Capital gains - sale of lots	-	-	93,784
Other income	18,895	31,175	30,546
Total unrestricted revenue, gains and other support	10,414,814	9,942,035	9,834,856
Expenses:			
Salaries and wages	4,412,968	4,398,287	4,248,456
Fringe benefits	830,028	961,425	848,439
Subcontractors	534,509	599,325	551,015
Pharmacy supplies	461,976	511,342	353,212
Payroll taxes	352,410	362,414	352,557
Depreciation	304,193	265,350	266,078
Patient care	230,096	321,703	241,710
Telephone	218,583	139,508	82,774
Utilities	126,284	132,377	123,109
Dental supplies	125,996	119,075	130,498
Space / storage rent	120,741	66,273	21,204
Equipment purchases	143,214	105,983	50,222
Equipment rental / lease	105,733	4,399	5,324
Repair and maintenance - building	117,118	110,726	73,768
Repair and maintenance - equipment	61,141	60,790	76,373
Janitorial / cleaning services	90,100	93,424	85,341
Interest expense	85,303	137,146	87,815
Office supplies	77,119	78,361	76,355
Medical supplies	75,202	70,180	98,873
Insurance	70,485	85,433	45,166
Optometry supplies	66,218	48,691	35,528
Building security	40,467	47,171	39,780
Auto operations	34,093	32,346	30,530
Accounting	31,797	30,644	30,301
Taxes / licenses / fees	30,202	16,913	24,604
Rubbish removal	28,573	23,064	20,948
Training	24,677	25,730	24,948
Miscellaneous	155,091	168,069	225,974
Total expenses	8,954,317	9,016,149	8,250,902
Changes in unrestricted net assets	1,460,497	925,886	1,583,954
Unrestricted net assets, beginning of the period	18,891,241	17,965,355	16,381,401
Unrestricted net assets, end of period	\$ 20,351,738	\$ 18,891,241	\$ 17,965,355

Chapa-De Indian Health Program, Inc.

Financial Position

	As of June 30,		
	2007	2006	2005
Assets:			
Current assets:			
Cash and cash equivalents	\$ 12,966,538	\$ 13,681,028	\$ 13,442,496
Petty cash	1,810	2,290	2,090
Investments	1,016,262	1,099,788	921,261
Account receivables, net	302,480	324,121	323,775
Other receivables	6,817	7,970	2,546
Total current assets	<u>14,293,907</u>	<u>15,115,197</u>	<u>14,692,168</u>
Property and equipment, net	11,030,847	9,876,199	9,407,026
Security/other deposits	39,412	32,844	10,404
	<u>11,070,259</u>	<u>9,909,043</u>	<u>9,417,430</u>
Total Assets	<u>\$ 25,364,166</u>	<u>\$ 25,024,240</u>	<u>\$ 24,109,598</u>
Liabilities and Net Assets:			
Current liabilities:			
Accounts payable	\$ 688,671	\$ 192,034	\$ 142,432
Salaries payable	134,934	129,885	130,913
Payroll taxes payable	13,914	14,418	14,590
Employee withholdings	45,845	43,177	43,022
Accrued vacations	122,856	132,424	127,836
Deferred contracts	2,885,754	3,886,884	3,703,489
Current portion of long-term debt	29,734	270,392	274,725
Total current liabilities	<u>3,921,708</u>	<u>4,669,214</u>	<u>4,437,007</u>
Long-term liabilities	<u>1,090,720</u>	<u>1,329,108</u>	<u>1,551,594</u>
Total liabilities	<u>5,012,428</u>	<u>5,998,322</u>	<u>5,988,601</u>
Net assets:			
Unrestricted	20,351,738	18,891,241	17,965,355
Permanently restricted	140,027	134,677	155,642
Total net assets	<u>20,491,765</u>	<u>19,025,918</u>	<u>18,120,997</u>
Total liabilities and net assets	<u>\$ 25,504,193</u>	<u>\$ 25,024,240</u>	<u>\$ 24,109,598</u>

Financial Ratios:

	Proforma (a)			
	FYE June, 2007			
Debt service coverage (x)	2.05	5.20	3.23	5.23
Debt/Unrestricted Net Assets (x)	0.87	0.06	0.10	0.12
Margin (%)		20.78	9.31	0.09
Current Ratio (x)		3.64	3.24	3.31

(a) Recalculates 2007 audited results to include the impact of this proposed financing.

Financial Discussion – Income Statement

Chapa-De appears to continue showing a solid growth in revenues and increases in unrestricted net assets.

Chapa-De appears to exhibit solid operating results over the past three fiscal years with increases in unrestricted net assets of \$1.5 million, \$925,000, and \$1.5 million, respectively.

Chapa-De reports that it receives a significant amount of its revenues from three major federal contracts with Indian Health Service, plus three state contracts. In addition to its revenues from a comprehensive array of medical and dental services, Federally Qualified Health Center (FQHC) and Tribal Health Program (THP) rates continue to increase steadily every year as shown in total revenue for fiscal years 2005 through 2007. Chapa-De's overall revenues appear to continue increasing over the review period, increasing from \$9.8 million in FYE 2005 to \$10.4 million in FYE 2007.

Particular Facts to Note:

- Chapa-De reported a \$125,904 decrease in unrealized gain from investments during FYE 2007 which it attributes to the liquidation of almost \$1.6 million in securities in August 2006 and then a re-investment \$1 million of those funds back in securities in January 2007.
- In FYE 2007, Chapa-De reports that its decision to invest in leasing photocopying machines as an economical alternative to purchasing led to an increase of approximately \$100,000 in the equipment rental/leasing category.
- In general, during our review period, expenses have increased at approximately the same rate as Chapa-De's revenue increases.

Financial Discussion – Balance Sheet

Chapa-De appears to be exceptionally liquid (with approximately \$13 million in cash) and financially strong (with \$20.4 million in net assets).

In addition to Chapa-De's apparent exceptional liquidity (\$13 million in cash, \$5.1 million of which will be used for construction,) and financial strength, Chapa-De reported that its unrestricted net assets have increased from approximately \$17.9 million to \$20.4 million during the review period, reflecting an apparent 14% increase.

As of June 30, 2007, Chapa-De had only \$1.1 million in long-term debt. However, Chapa-De plans to borrow \$5.5 million from the United States Department of Agriculture and \$7.1 million from Umpqua bank in order to finance the planned project.

Particular Facts to Note:

- In FYE 2007, Chapa-De reports that account payables have increased by approximately \$500,000 due to unpaid invoices from the remodeling of the Woodland clinic.
- A very conservative computation of Chapa-De's debt service coverage ratio for FYE 2007, (assuming payments of the long-term debts and the proposed HELP II loan without incorporating any new revenues from the newly constructed facility) still yields an adequate 2.05x. Yet, when incorporating the revenues forecasted by an independent consultant's feasibility study, the DSC is a very strong 5.20x.

III. UTILIZATION STATISTICS

**Clients Admitted / (Patient Visits)
Fiscal Year Ended June 30**

	2005	2006	2007*
Totals	7,799 / (42,909)	7,902 / (39,740)	7,618 / (38,321)

* The decline in number of clients admitted was due to the closure of Woodland clinic for renovation between 11/2006 through 08/2007.

IV. ORGANIZATION

Background

Established in 1975, Chapa-De is a non-profit organization that primarily provides services to Native Americans, and all other low-income groups, that reside in the counties of Placer, Nevada, Sierra and Yolo. Chapa-De is the only provider currently accepting Medi-Cal and Medicare patients in Nevada County geographical areas, and is designated as Federally Qualified Health Center, as well as a certified Tribal Health Program with Medicaid. Chapa-De's services include medical, dental, orthodontia, podiatry, maternal-child health, optometry, pharmacy, behavioral health, acupuncture and chiropractic.

Chapa-De operates from four different clinics: Auburn headquarters, Woodland, and two clinics in Grass Valley (to be consolidated into the new facility). Additionally, Chapa-De is in the process of building a new clinic in Williams, which should be operational in July 2008.

Licenses

Chapa-De is licensed by the State Department of Health Services as a Community Clinic.

V. OUTSTANDING DEBT

<u>Date Issue:</u>	<u>Original Amount</u>	<u>Amount Outstanding as of 6/30/2007*</u>	<u>Estimated Amount Outstanding After Proposed Financing</u>
Existing:			
Union Bank of California, 2006	\$ 1,150,000	\$ 1,120,454	\$ 1,120,454
Proposed:			
CHFFA HELP II, 2008			750,000
Total		<u>\$ 1,120,454</u>	<u>\$ 1,870,454</u>

* Includes current portion of long-term debt.

VI. DUE DILIGENCE:

Due diligence has been completed with regard to the following items:

- Savings Pass Through: (Borrower) has provided a description of its savings pass through in **Exhibit A**.
- Section 15459.1 of the Act (Community Service Requirement): Chapa-De has executed this certification indicating that Medi-Cal and Medicare patients are accepted. A copy of the certification is provided as **Exhibit B**.
- Religious Due Diligence
- Legal Review: Per legal counsel, the borrower disclosed a pending lawsuit, but this lawsuit does not rise to the level of a financial or legal concern for purposes of the Authority's consideration.

VII. STAFF RECOMMENDATION

Staff recommends the Authority approve a resolution for a HELP II loan for Chapa-De Indian Health Program, Inc. in an amount not to exceed \$750,000 for a term not to exceed 5 years. This loan is contingent upon financing terms acceptable to the Authority.